

AUDITING PROCEDURES REPORT

Issued under P.A. 2 of 1968, as amended. Filing is mandatory.

Local Government Type: <input type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input checked="" type="checkbox"/> Other		Local Government Name: South Lyon Area Recreation Council	County Oakland
Audit Date June 30, 2004	Opinion Date July 23, 2004	Date Accountant Report Submitted To State: August 6, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:


1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- | | |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980). |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132]) |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit. |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95). |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASLGU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): PLANTE & MORAN, PLLC			
Street Address 27400 Northwestern Highway	City Southfield	State MI	ZIP 48034
Accountant Signature 			

South Lyon Area Recreation Council

**Financial Report
with Supplemental Information
June 30, 2004**

South Lyon Area Recreation Council

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Independent Auditor's Report

To the Members of the Council
South Lyon Area Recreation Council

We have audited the accompanying basic financial statements of the South Lyon Area Recreation Council as of June 30, 2004 and for the year then ended, as listed in the table of contents. These financial statements are the responsibility of the South Lyon Area Recreation Council's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the basic financial statements referred to above present fairly, in all material respects, the financial position of the South Lyon Area Recreation Council as of June 30, 2004 and the changes in its financial position for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

As described in Note 1, the Council has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

Plante & Moran, PLLC

July 23, 2004



A worldwide association of independent accounting firms

South Lyon Area Recreation Council

Management's Discussion and Analysis

Our discussion and analysis of the South Lyon Area Recreation Council's financial performance provides an overview of the Council's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the Council's financial statements.

South Lyon Area Recreation Council as a Whole

The following table shows, in condensed format, the net assets as of the current date, for the year ended June 30, 2004 (amounts in thousands). In future years, this table will also present prior year information, as well as comparative data from the statement of activities. Since this is the first year of implementation of GASB No. 34 (see Note 1), prior year information is not available.

TABLE I

Assets

Current assets	\$ 129
Noncurrent assets	<u>11</u>
Total assets	140

Current liabilities	<u>109</u>
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Net Assets

Invested in capital assets	11
Unrestricted	<u>20</u>
Total net assets	<u><u>\$ 31</u></u>

The Council's combined net assets increased by approximately \$20,000 due to the overall increase in revenue. Program-related revenue increased by nearly 20 percent. This was due in part to a department-wide effort to increase each semester's program offerings by 25 percent to 35 percent (particular attention was given to expanding the adult enrichment offerings). Another contributing factor was an increase across the board in course fees. Fees were adjusted to offset inflation and higher staff salaries. In addition, program registration increased as a result of population growth and the Council's expanded marketing efforts. During the past year, administration prompted the local public access provider to purchase the equipment necessary to begin using the community calendar feature. Nonprogram-related revenue increased as well. Municipal contributions increased by approximately \$5,000 (approximately 12 percent) and private contributions (sponsorships) increased by more than 20 percent.

Expenditures did increase from the prior year. However, unlike the 18 percent increase in revenue, expenditures increased just over 6 percent.

South Lyon Area Recreation Council

Management's Discussion and Analysis (Continued)

Governmental Activities

The Council's total revenues increased during the current year by approximately \$104,000 due to various factors, including the increase in adult and youth program revenues. Expenses increased during the year primarily due to increasing contractual service expenses associated with the increase in revenues.

General Fund Budgetary Highlights

Over the course of the year, the Council amended the budget to take into account events during the year. The Council overall stayed below budget, resulting in total expenditures being below the budget figures. This allowed the General Fund's fund balance to increase from a year ago to approximately \$31,000 at June 30, 2004.

Economic Factors and Next Year's Budgets and Rates

South Lyon Area Recreation Council's budget for next year calls for minor changes, realizing that the entities are experiencing budget cuts. The Council will also work hard to maintain a budget that works for all entities.

Contacting the Council's Management

This financial report is intended to provide our citizens, customers, and investors with a general overview of the Council's finances and to show the Council's accountability for the money it receives. If you have questions about this report or need additional information, we welcome you to contact the Council's office.

South Lyon Area Recreation Council

Governmental Fund Balance Sheet - Statement of Net Assets June 30, 2004

	Balance Sheet - Modified Accrual	Adjustments (Note 2)	Statement of Net Assets - Full Accrual
Assets			
Cash (Note 3)	\$ 129,590	\$ -	\$ 129,590
Capital assets (Note 4)	<u>-</u>	<u>10,732</u>	<u>10,732</u>
Total assets	<u>\$ 129,590</u>	10,732	140,322
Liabilities and Fund Balance			
Liabilities			
Accrued and other liabilities	\$ 10,084	-	10,084
Compensated absences (Note 1)	-	10,650	10,650
Deferred revenue (Note 1)	<u>88,928</u>	<u>-</u>	<u>88,928</u>
Total liabilities	99,012	10,650	<u>109,662</u>
Fund Balance - Unreserved and undesignated	<u>30,578</u>	<u>(30,578)</u>	
Total liabilities and fund balance	<u>\$ 129,590</u>		
Net Assets			
Invested in capital assets		10,732	10,732
Unrestricted		<u>19,928</u>	<u>19,928</u>
Total net assets		<u>\$ 30,660</u>	<u>\$ 30,660</u>

South Lyon Area Recreation Council

Statement of Governmental Fund Revenue, Expenditures, and Changes in Fund Balance - Statement of Activities Year Ended June 30, 2004

	Revenues and Expenditures - Modified Accrual	Adjustments (Note 2)	Statement of Activities - Full Accrual
Revenue			
Adult program fees and other charges	\$ 125,177	\$ -	\$ 125,177
Youth program fees and other charges	457,698	-	457,698
Grants, donations, and other contributions (Note 6)	63,113	-	63,113
Pumpkinfest revenue	22,118	-	22,118
Teen activities	2,920	-	2,920
Discount tickets	3,590	-	3,590
Interest	139	-	139
Total revenue	674,755	-	674,755
Expenditures			
Salaries	219,472	480	219,952
Payroll taxes	17,377	-	17,377
Employee benefits	34,436	-	34,436
Insurance	8,913	-	8,913
Pumpkinfest expenses	14,670	-	14,670
Recreation supplies	28,463	-	28,463
Teen activities	1,895	-	1,895
Discount tickets	3,994	-	3,994
GRASP	2,922	-	2,922
Office expenses	26,773	-	26,773
Bank charges	8,075	-	8,075
Postage expense	9,585	-	9,585
Contract services	205,600	-	205,600
Professional services	11,111	-	11,111
Telephone expense	5,683	-	5,683
Printing and publishing	13,328	-	13,328
Utilities expense	4,328	-	4,328
Rent expense	27,965	-	27,965
Capital outlay	2,450	(2,450)	-
Depreciation	-	10,175	10,175
Total expenditures	647,040	8,205	655,245
Change in Fund Balance - Net assets	27,715	(8,205)	19,510
Fund Balance/Net Assets			
Beginning of year	2,863	8,287	11,150
End of year	<u>\$ 30,578</u>	<u>\$ 82</u>	<u>\$ 30,660</u>

South Lyon Area Recreation Council

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies

The accounting policies of the South Lyon Area Recreation Council (the "Council") conform to accounting principles generally accepted in the United States of America as applicable to governmental units. The following is a summary of the significant accounting policies used by the Council:

Reporting Entity

The Council is governed by a three-member council appointed by the participating municipalities. The Council was formed effective July 1, 1999 through a cooperative interlocal agreement between Green Oak Township, the Charter Township of Lyon, and the City of South Lyon. The Council provides year-round programs and services for youth, teens, adults, families, and seniors who are primarily residents of these communities.

The accompanying basic financial statements have been prepared in accordance with criteria established by the Government Accounting Standards Board for determining the various governmental organizations to be included in the reporting entity. Based on these criteria, there are no component units of the Council that are to be included in the reporting entity.

Measurement Focus, Basis of Accounting, and Financial Statement Presentation

The Council's basic financial statements include both government-wide (reporting the Council as a whole) and fund financial statements (reporting the Council's major fund).

Government-wide Financial Statements

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Grants, charges for services, and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the Council considers revenues to be available if they are collected within 60 days of the end of the current fiscal period.

South Lyon Area Recreation Council

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, expenditures related to compensated absences are recorded only when payment is due.

Interest earned on investments is recorded on the accrual basis.

The Council reports the following major governmental fund:

The General Fund is the Council's primary operating fund. It accounts for all financial resources of the Council. General Fund activities are financed primarily from program charges and intergovernmental sources.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in the government-wide statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The Council has elected not to follow private sector standards issued after November 30, 1989 for its full accrual presentation.

Assets, Liabilities, and Net Assets or Equity

Capital Assets - Capital assets, which include furniture and equipment, are reported in the statement of net assets. Capital assets are defined by the Council as assets with an initial individual cost of more than \$500 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

Capital assets are depreciated using the straight-line method over the following useful lives:

Office furniture and equipment	3 to 10 years
Athletic equipment	3 to 5 years

Compensated Absences - It is the Council's policy to permit full-time employees to accumulate earned but unused sick, vacation, and personal day benefits. All compensated absence pay is accrued when incurred in the government-wide financial statement. A liability for these amounts is reported in governmental funds only for employee terminations as of year end. The compensated absence balance was \$10,650 and \$10,170 as of June 30, 2004 and 2003, respectively. The entire amount accrued as of June 30, 2004 is current and will be paid within the next fiscal year.

South Lyon Area Recreation Council

Notes to Financial Statements June 30, 2004

Note 1 - Summary of Significant Accounting Policies (Continued)

Deferred Revenue - Governmental funds modified accrual basis financial statements and the government-wide full accrual financial statements report deferred revenue in connection with revenue that has not been earned since it relates to advance collection of program fees for programs which will be provided subsequent to the end of the current fiscal year.

Use of Estimates - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

Change in Accounting - During the current year, the Council adopted GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. Changes to the Council's financial statements as a result of GASB No. 34 are as follows:

- A management's discussion and analysis (MD&A) section providing analysis of the Council's overall financial position and results of operations has been included.
- The financial statements include a full accrual accounting for all of the Council's activities.
- Capital assets in the governmental activities column include assets previously reported in the General Fixed Assets Account Group. Capital assets at July 1, 2003 previously reported in the General Fixed Assets Account Group have been adjusted by approximately \$33,000 to reflect the historical cost of the Council's capital assets.
- The governmental funds now accrue a liability for compensated absences only to the extent that they come due for payment prior to year end.

Related Parties - The Council rents its office space from the City of South Lyon for a total of \$676 per month.

Other accounting policies are disclosed in other notes to the financial statements.

South Lyon Area Recreation Council

Notes to Financial Statements June 30, 2004

Note 2 - Reconciliation of Government-wide and Fund Financial Statements

Total fund balances and the net change in fund balances of the Council's governmental funds differ from net assets and change in net assets of the governmental activities reported in the statement of net assets and the statement of activities. This difference results primarily from the long-term economic focus of the statement of net assets and the statement of activities versus the economic focus of the statement of the governmental fund balance sheet and the statement of revenue, expenditures, and change in fund balance. The following reconciliations of fund balance to net assets and the net change in fund balance to the net change in net assets are as shown:

Total Fund Balance - Modified Accrual Basis	\$ 30,578
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Amounts reported in the statement of net assets are different because:

Capital assets are not financial resources and are not reported in the funds	10,732
Compensated absences are not due and payable in the current period and are not reported in the funds	<u>(10,650)</u>

Total Net Assets - Full Accrual Basis	<u>\$ 30,660</u>
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Net Change in Fund Balances - Modified Accrual Basis	\$ 27,715
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Amounts reported in the statement of activities are different because:

Capital outlays are reported as expenditures in the statement of revenue, expenditures, and changes in fund balance; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation:	
Capital outlay	2,450
Depreciation	<u>(10,175)</u>
Changes in accumulated employee sick and vacation pay are recorded when earned in the statement of activities	<u>(480)</u>

Change in Net Assets of Governmental Activities - Full Accrual Basis	<u>\$ 19,510</u>
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South Lyon Area Recreation Council

Notes to Financial Statements June 30, 2004

Note 3 - Cash

The Council's cash is comprised of bank deposits that are reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$168,090. The entire amount was covered by federal depository insurance.

Note 4 - Capital Assets

Capital asset activity of the Council's governmental activities was as follows:

	Balance - Beginning of Year	Additions	Deletions	Balance - End of Year
Governmental Activities				
Capital assets being depreciated:				
Office furniture and equipment	\$ 34,357	\$ 2,450	\$ 2,205	\$ 34,602
Athletic equipment	5,030	-	-	5,030
Subtotal	39,387	2,450	2,205	39,632
Accumulated depreciation:				
Office furniture and equipment	18,734	8,964	2,205	25,493
Athletic equipment	2,196	1,211	-	3,407
Subtotal	20,930	10,175	2,205	28,900
Net capital assets	<u>\$ 18,457</u>	<u>\$ (7,725)</u>	<u>\$ -</u>	<u>\$ 10,732</u>

Note 5 - Budget Information

The annual budget is prepared by the recreation director and adopted by the South Lyon Area Recreation Council; subsequent amendments are approved by the Council. Unexpended appropriations lapse at year end; encumbrances are not included as expenditures. The amount of encumbrances outstanding at June 30, 2004 has not been calculated. During the current year, the budget was amended in a legally permissible manner. The final budget amendments were approved subsequent to June 30, 2004.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America. The budget has been adopted on a total revenue and expenditure basis; expenditures at this level in excess of amounts budgeted are a violation of Michigan law. The additional detail in this statement is shown in greater detail than the budget that was adopted and is used to provide additional analysis for management use only.

South Lyon Area Recreation Council

Notes to Financial Statements June 30, 2004

Note 6 - Grants and Donations

During the current year, the Council received the following grants, donations, and contributions into the General Fund:

Cash contributions:

City of South Lyon	\$ 21,418
City of South Lyon Swim	3,750
Green Oak Township	10,152
Green Oak Township Swim	1,325
Lyon Township	13,430
Lyon Township Swim	1,750
Private donations	<u>11,288</u>

Total	<u>\$ 63,113</u>
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Note 7 - Defined Contribution Pension Plan

The Council provides pension benefits to all of its full-time employees through a defined contribution plan. In a defined contribution plan, benefits depend solely on amounts contributed to the plan plus investment earnings. As established by resolution of the Council, the Council contributes 10 percent of full-time employees' gross earnings. In accordance with these requirements, the Council contributed \$10,595 during the year ended June 30, 2004. The Council's contributions for each employee are fully vested after three years for employees who have been hired after July 2000. The employees who were with the Council before July 2000 were fully vested upon hire.

Note 8 - Risk Management

The South Lyon Area Recreation Council is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The Council has purchased commercial insurance for workers' compensation and employee medical claims and participates in the state pool program of the Michigan Municipal Risk Management Authority (the "Authority") for claims relating to general liability. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in the past year.

South Lyon Area Recreation Council

Notes to Financial Statements June 30, 2004

Note 8 - Risk Management (Continued)

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

Required Supplemental Information

South Lyon Area Recreation Council

Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
Revenue				
Adult program fees and other charges	\$ 117,000	\$ 121,000	\$ 125,177	\$ 4,177
Youth program fees and other charges	425,000	445,000	457,698	12,698
Grants, donations, and other contributions (Note 5)	61,325	61,325	63,113	1,788
Pumpkinfest revenue	26,000	26,000	22,118	(3,882)
Teen activities	-	-	2,920	2,920
Discount tickets	-	-	3,590	3,590
Interest	500	500	139	(361)
Total revenue	629,825	653,825	674,755	20,930
Expenditures				
Salaries	212,672	217,172	219,472	(2,300)
Payroll taxes	17,425	17,425	17,377	48
Employee benefits	34,800	34,800	34,436	364
Insurance	9,600	9,600	8,913	687
Pumpkinfest expenses	17,500	17,500	14,670	2,830
Recreation supplies	30,000	30,000	28,463	1,537
Teen activities	-	2,000	1,895	105
Discount tickets	-	4,000	3,994	6
GRASP	-	3,000	2,922	78
Office expenses	27,310	27,310	26,773	537
Bank charges	7,250	7,250	8,075	(825)
Postage expense	8,500	9,500	9,585	(85)
Contract services	185,000	199,000	205,600	(6,600)
Professional services	13,150	13,150	11,111	2,039
Telephone expense	6,500	6,500	5,683	817
Printing and publishing	14,000	14,000	13,328	672
Utilities expense	4,750	4,750	4,328	422
Rent expense	28,956	28,956	27,965	991
Capital outlay	2,500	2,950	2,450	500
Total expenditures	619,913	648,863	647,040	1,823
Change in Fund Balance	9,912	4,962	27,715	22,753
Fund Balance - Beginning of year	2,863	2,863	2,863	-
Fund Balance - End of year	<u>\$ 12,775</u>	<u>\$ 7,825</u>	<u>\$ 30,578</u>	<u>\$ 22,753</u>